

6102.0 - Labour Statistics: Concepts, Sources and Methods, 2001

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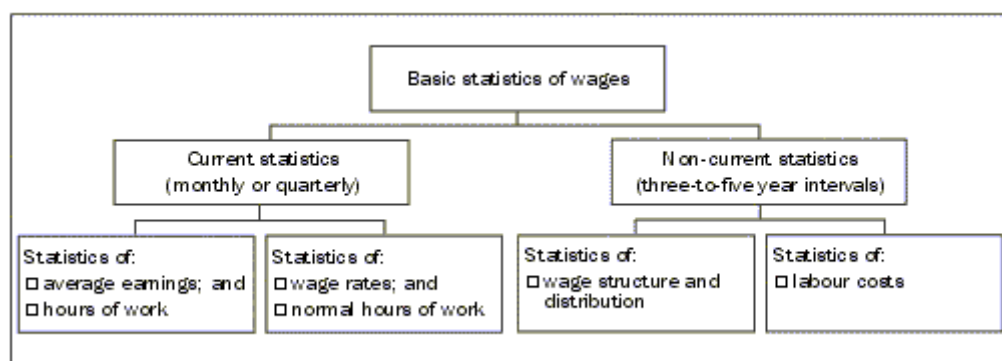
INTRODUCTION

11.1 Statistics of wages, earnings and income are required for the planning, evaluation, and monitoring of economic and social development. Demand for the statistics emanates from Federal and State Governments, social and labour market analysts, Federal and State industrial tribunals, trade unions, employer associations, academics and international agencies.

11.2 Comprehensive statistics on wage rates, earnings and labour costs, and differentials by sex, occupation, skill, industry etc., are in such demand because of the role they play in: evaluation of income redistribution, social welfare, taxation, monetary, wage fixation, inflation and prices policies; investment decisions; studies of corporate and international competitiveness; and measurement of living standards.

11.3 The myriad users and uses of statistics in this area can never be satisfied with a single all-encompassing statistical measure that would meet all needs for all purposes. In recognition of this, the Twelfth ICLS (1973) recommended that countries collect a range of interrelated wages statistics to meet users' differing needs. The ILO, in its manual **An Integrated System of Wages Statistics, a Manual on Methods**, presents a framework for an integrated system of basic statistics of wages. The framework presented in diagram 11.1 is an adaptation of the ILO framework.

11.1 FRAMEWORK FOR AN INTEGRATED SYSTEM OF BASIC STATISTICS OF WAGES



11.4 As discussed in the ILO manual, while the integrated system of wages recommended by the Twelfth ICLS does not deal with the computation of real wages, wage indexes, and similar questions which are of an analytical nature, there is no particular difficulty in bringing these topics, as well as other statistical measures of wages (such as employment-related income and compensation of employees), within the framework of the integrated system.

11.5 The first section of this chapter outlines and contrasts international concepts of wages, earnings, compensation of employees, labour costs, and employment-related income. The

subsequent sections discuss in detail: definitions associated with various ABS wages, earnings and labour costs statistics; sources of Australian statistics, including non-ABS series; and measures and classifications associated with these statistics. Statistics of hours of work are discussed in Chapter 4.

CONCEPTS AND INTERNATIONAL GUIDELINES

WAGES

11.6 There is no international recommended definition of wages due to differences of opinion as to what components of payments made in employing labour should be included in wages or in other measures.

11.7 The common notion of wages is that of payments to a worker by his/her employer made regularly (at daily, weekly, fortnightly, or monthly intervals) including: payments in cash and in kind; supplementary earnings under incentive plans; cost of living allowances; and regular bonuses. Included also are payments for overtime and for work done on those days which are normally non-working days, and remuneration for time not worked (including paid annual leave, public holidays, sick leave, and other paid leave). Contributions by employers to superannuation, workers' compensation schemes, severance payments on termination, end of service benefits, and retirement allowances, are not considered part of wages.

11.8 This notion of wages, based on the concept of wages as remuneration to the jobholder, underlies the concepts of 'earnings' and 'employment-related income' outlined in international guidelines.

11.9 An alternative notion is to consider wages as part of the total labour cost incurred by employers for the purchase of labour services. Other components of labour costs include costs associated with employing labour which do not automatically accrue as income to employees (such as workers compensation payments, expenditure on recruitment and training, and payroll tax). Under this notion, wages represent payment for labour services, and it is this notion of wages which underlies the concepts of 'compensation of employees' and 'labour costs' outlined in international guidelines (ICLS and the United Nations).

11.10 The international concepts of earnings, compensation of employees, labour costs, and employment-related income are discussed below.

EARNINGS

11.11 Statistical measures of earnings are based on the concept of wages as income to the employee. The resolution of the Twelfth ICLS (1973) defines the concept of earnings as follows (table 11.2).

11.2 DEFINITION OF EARNINGS (ICLS 1973)

The concept of earnings, as applied in wages statistics, relates to remuneration and payments in kind paid to employees, as a rule at regular intervals, for time worked or work done, together with remuneration for time not worked such as for annual vacation, other paid leave or holidays. Earnings exclude employers' contributions paid, in respect of their employees, to social security and pension schemes and also the benefits received by employees under these schemes. Earnings also exclude severance and termination pay.

Statistics of earnings should relate to employees' gross remuneration, i.e. the total before any deductions are made by the employer in respect of taxes, contributions of employees to social security and pension schemes, life insurance

premiums, union dues and other obligations of employees.

Earnings should include: direct wages and salaries, remuneration for time not worked (excluding severance and termination pay), bonuses and gratuities, and housing and family allowances paid by the employer directly to his employee.

(a) Direct wages and salaries for time worked, or work done, cover:

- (i) straight-time pay of time-rated workers;
- (ii) incentive pay of time-rated workers;
- (iii) earnings of piece-workers (excluding overtime premiums);
- (iv) premium pay for overtime, shift, night and holiday work;
- (v) commissions paid to sales and other personnel.

Included are: premiums for seniority and special skills, geographical zone differentials, responsibility premiums, dirt, danger and discomfort allowances, payments under guaranteed wage systems, cost-of-living allowances and other regular allowances.

(b) Remuneration for time not worked comprises direct payments to employees in respect of public holidays, annual vacations and other time off with pay granted by the employer.

(c) Bonuses and gratuities cover seasonal and end-of-year bonuses, additional payments in respect of vacation period (supplementary to normal pay) and profit-sharing bonuses.

Statistics of earnings should distinguish cash earnings from payments in kind.

11.12 The international guidelines distinguish between current (monthly and quarterly) and non-current earnings statistics. The definition of earnings presented above is modified for current earnings statistics to include only those elements of earnings which, as a rule, are received regularly. Irregular bonuses, such as end-of-year and other one-time bonuses which accrue over a longer period but are paid during the reference period, should not be included.

COMPENSATION OF EMPLOYEES

11.13 Compensation of employees, a measure used in the United Nations System of National Accounts 1993, is viewed in terms of employers' expenditure for, or on behalf of, their employees. It is defined as "the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period" (SNA93 paragraph 7.21).

11.14 Compensation of employees excludes taxes, such as payroll tax, paid by employers on their wage and salary bill, but includes contributions (both actual and imputed) payable by employers in order to obtain social benefits for their employees. Actual social contributions consist of those contributions payable by employers to social security funds, pension funds, insurance enterprises or other organisations which administer and manage social insurance schemes. Employers' social contributions are imputed in situations where employers make payments for social benefits directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund and without creating a special fund or reserve for this purpose.

11.15 'Compensation of employees' produces a broader measure than 'employee earnings', as it includes: all irregular remuneration such as irregular bonuses, ad hoc bonuses and exceptional payments; severance and termination payments; all wages and salaries in kind in the form of consumption goods and services produced or purchased by employers and provided free of charge or at reduced prices to their employees (including welfare services); and employers' actual and imputed social contributions.

11.16 Compensation of employees should be measured on an accrual basis under which the total cost of employee compensation is reflected in the period during which the employee provided services to the employer. This requires that wages and salaries be accrued on the basis of the time worked.

LABOUR COSTS

11.17 The statistical measure of labour costs is based on the concept of labour as a cost to the employer in the employment of labour, and relates to: all cash and in-kind payments of wage and salaries to employees; all contributions by employers in respect of their employees to social security, private pension, casualty insurance, life insurance and similar schemes; and all other costs borne by employers in the employment of labour that are not related to employee compensation (such as costs of training, welfare services to employees, payroll taxes etc). Measures of labour costs should be net of any subsidies, rebates or allowances from governments for wage and salary payments to employees, or for other labour costs borne by employers.

11.18 The conceptual measure of labour cost is broader than the measure 'compensation of employees' since the former includes expenditure for welfare services, recruitment and training and other miscellaneous costs such as work clothes and taxes on employment (payroll tax) - see table 11.3.

11.3 DEFINITION OF LABOUR COSTS (ICLS 1973)

...remuneration for work performed, payments in respect of time paid for but not worked, bonuses and gratuities, the cost of food, drink and other payments in kind, cost of workers' housing borne by employers, employers' social security expenditures, cost to the employer for vocational training, welfare services and miscellaneous items, such as transport of workers, work clothes and recruitment together with taxes (are) regarded as labour costs.

EMPLOYMENT-RELATED INCOME

11.19 The concept of employment-related income is seen from the perspective of the recipient household. Current international recommendations (ICLS 1998) define employment-related income as comprising "payments in cash, in kind, or in services received by individuals, for themselves or in respect of their family members, as a result of the current or former involvement in paid or self-employment jobs", but excluding "income derived from other sources such as property, social assistance, transfers etc. not related to employment".

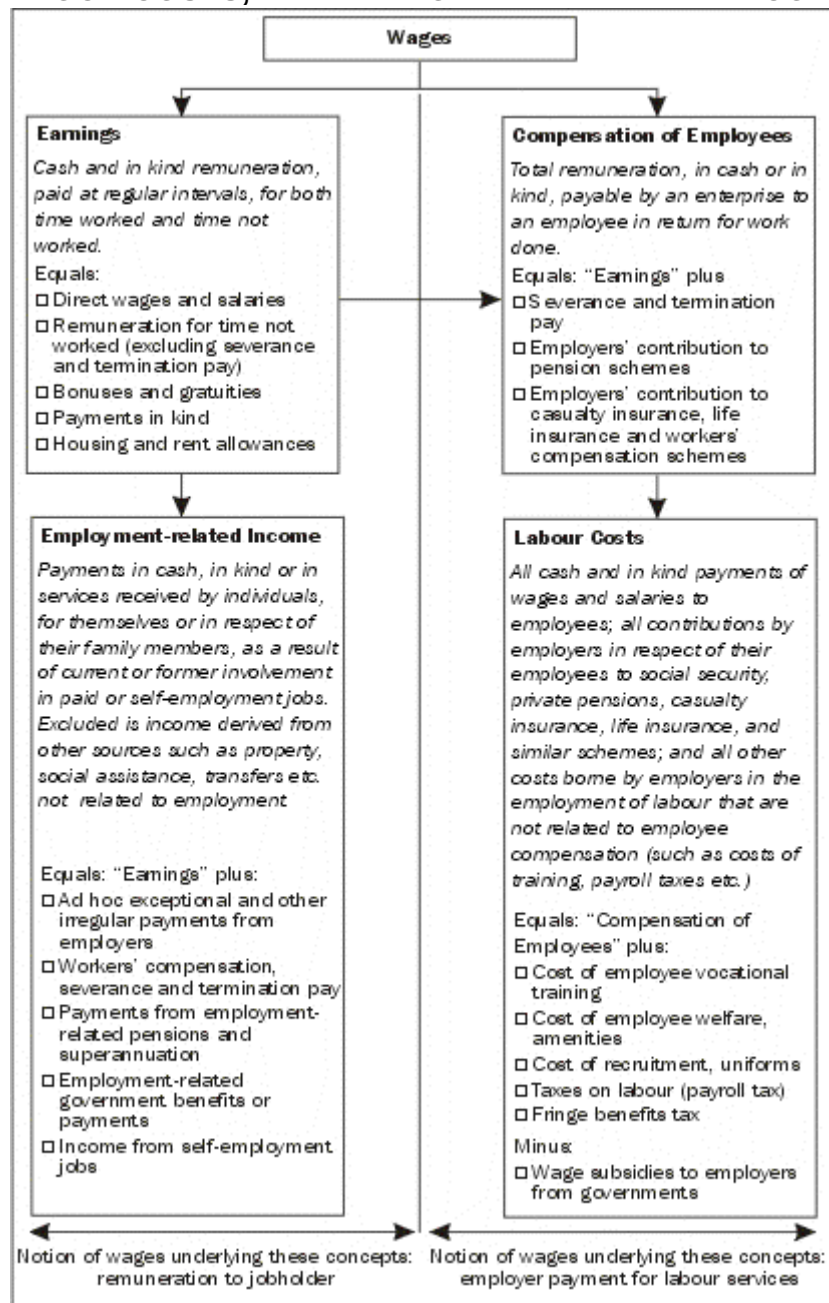
11.20 Employment-related income is therefore a much broader concept than earnings, incorporating: remuneration derived from paid jobs in the form of 'earnings'; other payments received from employers that accrue as income to employees (such as irregular earnings) but which are excluded from the concept of earnings; remuneration from self-employment jobs; and employment-related payments from other sources (superannuation, payments from the State such as pensions etc.) relating to both current and former jobs - see the ICLS resolution on the measurement of employment-related income at the ILO website: <http://www.ilo.org/public/english/bureau/stat/res/index.htm>.

RELATIONSHIP BETWEEN CONCEPTS OF EARNINGS, COMPENSATION OF EMPLOYEES, LABOUR COSTS, AND EMPLOYMENT-RELATED INCOME

11.21 The relationship between the international concepts of earnings, compensation of

employees, labour costs, and employment-related income is illustrated in diagram 11.4. The notion of wages as 'remuneration to the job holder' underlies the concepts of earnings and employment-related income, while the notion of wages as 'employer payments for labour services' underlies the concepts of compensation of employees and labour costs. The narrowest concept outlined in the international guidelines is that of earnings. Concepts of compensation of employees, labour costs, and employment-related income all include and extend upon the concept of 'earnings'.

11.4 COMPARISON OF CONCEPTS OF EARNINGS, COMPENSATION OF EMPLOYEES, LABOUR COSTS, AND EMPLOYMENT-RELATED INCOME



DEFINITIONS AND MEASURES USED IN ABS SURVEYS

WAGES

11.22 While the ABS does not produce estimates of wages per se, a range of wages statistics are produced based on the alternative notions of wages as remuneration to the job holder (e.g. earnings statistics) and wages as employer payment for labour services (e.g. statistics of compensation of employees and labour costs).

EARNINGS

11.23 Estimates of earnings are produced from a number of ABS surveys and include measures of average weekly earnings, earnings distributions, and earnings composition. The definition of earnings used varies across different surveys as discussed below.

Earnings definitions used in ABS business surveys

Survey of Average Weekly Earnings and Survey of Employee Earnings and Hours

11.24 The surveys of Average Weekly Earnings (AWE) and Employee Earnings and Hours (EEH) are designed to produce estimates of average weekly earnings at a point in time (on a quarterly basis in AWE, and on a biennial basis in EEH), and the definition used in these surveys aligns closely with the international definition for current earnings.

11.25 Components of earnings collected in AWE and EEH are limited to:

- remuneration for time worked or work done - ordinary time and overtime pay, penalty payments, commissions (only if a retainer/wage/salary is paid), taxable¹ employee allowances (e.g. allowances for shift work, site, dirt and height allowances), incentive and piecework payments;
- remuneration for time not worked - including paid leave and public holidays falling within the reference period, and workers' compensation payments if paid through the payroll; and
- bonuses and gratuities - includes regular bonuses (e.g. paid weekly, fortnightly or quarterly), and payments made under profit sharing schemes usually paid each pay period.

1. Non-taxable allowances (e.g. for tools, clothing, equipment) are excluded from earnings (as well as compensation of employees and labour costs) as they are generally reimbursements to employees for expenditure by them in the course of their work. (In the national accounts, the amounts reimbursed are treated as intermediate consumption.)

11.26 The following components of remuneration are excluded from AWE and EEH earnings measures:

- payments in kind (includes salary packaging/sacrifice) - payments in kind have traditionally been excluded from ABS earnings measures for practical reasons, information on such payments not being readily available from payrolls; and
- all other payments that are irregular or not related to the survey reference period - these include retrospective pay; pay in advance; severance, termination and redundancy pay; leave loadings; and annual and irregular bonuses.

11.27 The exclusion of payments in kind is not consistent with international guidelines. Apart from this, the definition of earnings used in AWE and EEH is consistent with the international guidelines for measures of current earnings.

Other ABS business surveys

11.28 Earnings statistics are also produced from the Survey of Employment and Earnings (gross quarterly earnings), the Labour Costs Survey (gross annual earnings and average annual earnings per employee), and the Wage Cost Index (quarterly change in hourly rates of pay). Unlike the surveys of AWE and EEH, these surveys are not designed to produce estimates of the

concept of 'earnings' per se, but estimates of the broader concepts of 'compensation of employees', 'labour costs', or measures related to these concepts. As such, these surveys generally define earnings more broadly than EEH and AWE, and estimates are not comparable across surveys.

11.29 Estimates from the Survey of Employment and Earnings (SEE) are used in the production of estimates of the 'value of employee entitlements' component of 'compensation of employees' for the Australian National Accounts. The definition of earnings used in the survey extends the definition used in AWE and EEH. It comprises 'earnings' as defined for AWE and EEH, as well as: irregular payments (such as irregular bonuses and gratuities); payments which may not relate solely to the reference period (such as pay in advance; retrospective pay; and severance, termination and redundancy payments); and fees paid to directors and office holders. However, fees paid to directors and office holders, and severance, termination and redundancy payments, are separately identified in the survey and separate estimates can be produced for these earnings components. Unlike AWE and EEH, which are designed to estimate average earnings levels at a point in time, SEE is designed to estimate earnings flows to employees over a three month period. For further information on the earnings definition used in SEE, refer to paragraph 11.46. For further information on the content and methodology of the survey, refer to Chapter 29.

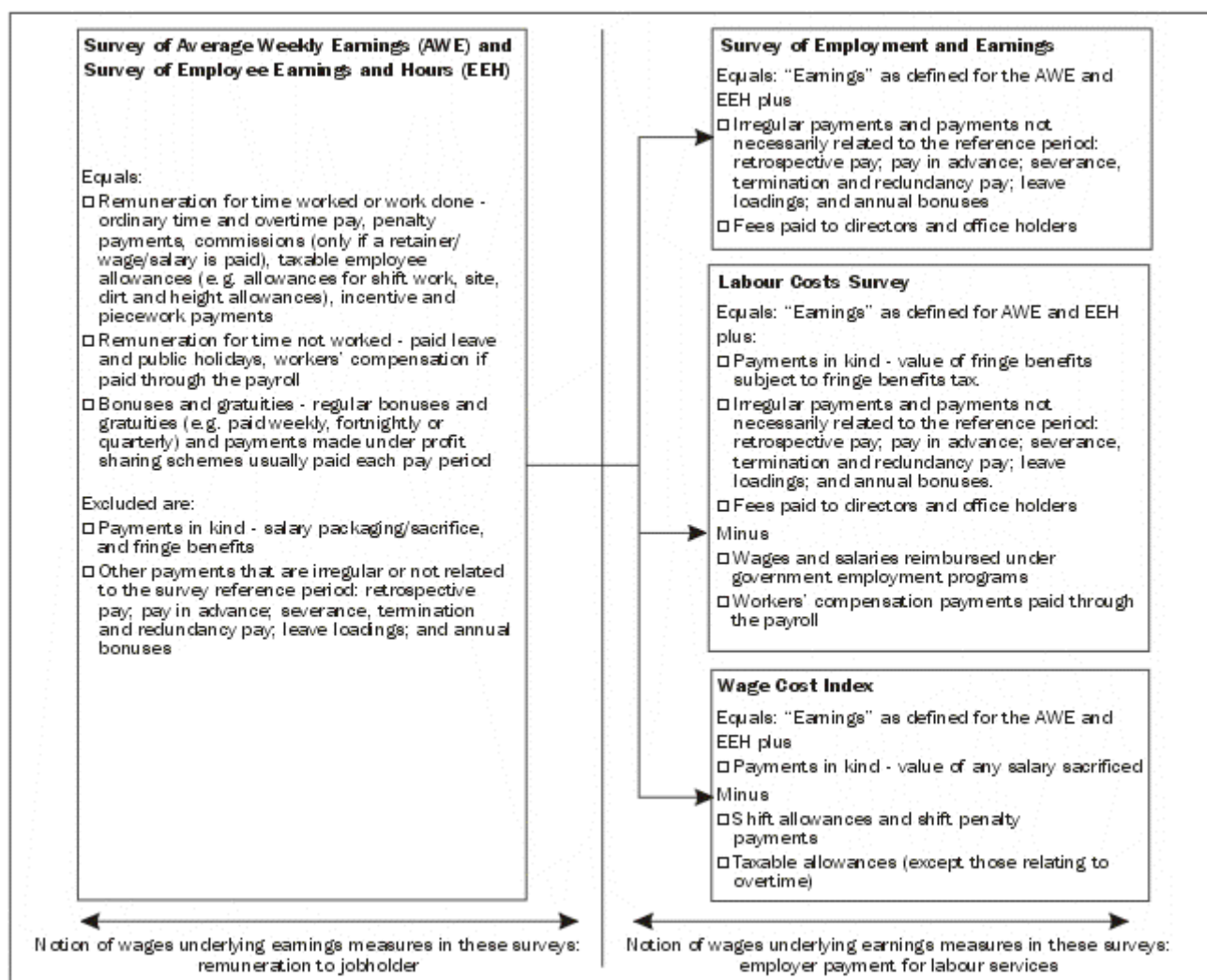
11.30 The Labour Costs Survey is designed to produce estimates of employers' labour costs, and estimates of earnings are produced as a component of total labour costs. A broader definition of earnings is also used in the Labour Costs Survey. It comprises 'earnings' as defined for AWE and EEH, as well as: some payments in kind (value of fringe benefits subject to fringe benefits tax); irregular payments; payments which may not relate solely to the reference period (including severance, termination and redundancy payments); and fees paid to directors and office holders. Wages and salaries reimbursed under government employment programs, and workers' compensation payments paid through the payroll, are excluded. Like SEE, the Labour Costs Survey is designed to produce estimates of earnings flows over a twelve month period. For further information on the earnings definition used in the Labour Costs Survey, refer to paragraph 11.55. For further information on the content and methodology of the survey, refer to Chapter 26.

11.31 The Wage Cost Index (WCI) is a price index measuring changes in wage and salary costs in the Australian labour market, unaffected by changes in the quality and quantity of work performed. The survey tracks employee jobs and measures changes in the price of labour (hourly rates of pay) associated with those jobs. The definition of 'wage and salary costs' used in the survey aligns closely with the international definition of earnings. However, as the WCI is a price index, changes in payments relating to the quality and/or quantity of work performed (which are included in the international earnings definition, and in AWE and EEH) are excluded. Also excluded are: shift allowances and shift penalty payments; and taxable allowances. The reference period for the WCI is short (one week), except for bonuses which are collected in respect of a three month period. For further information on the definition of wage and salary costs used in the WCI, refer to paragraph 11.58. For further information on the content and methodology of the WCI, refer to Chapter 30.

Relationship between earnings definitions used in ABS business surveys

11.32 The relationship between the alternative definitions of earnings used in ABS business surveys is illustrated in diagram 11.6. The notion of wages as 'remuneration to the job holder' underlies the concepts of earnings measured in AWE and EEH, while the notion of wages as 'payments for labour services' underlies the concepts of earnings measured in SEE, the Labour Costs Survey and the WCI.

11.6 COMPARISON OF EARNINGS DEFINITIONS USED IN ABS BUSINESS SURVEYS



Earnings definitions used in ABS household surveys

11.33 Earnings measures used in ABS household surveys generally relate to gross payments received from either the main job or all jobs during the reference period. Adjustments are generally not made to exclude components of pay that may be outside the international earnings definition (such as irregular bonuses), and components of pay that may not relate to the reference period (such as retrospective pay and pay in advance). Earnings measures produced from ABS household surveys are restricted to cash earnings, i.e. they exclude payments in kind.

Earnings measures and classifications used in ABS business surveys

Average weekly earnings

11.34 Estimates of average weekly earnings are derived by dividing estimates of gross weekly earnings by estimates of number of employee jobs. Average weekly earnings represents the average gross (before tax) earnings of employee jobs. It does not relate to average award rates of pay nor to the earnings of the 'average employee'.

11.35 Changes in averages may be affected not only by changes in the underlying rates of pay, but also by changes in the weekly hours worked (or paid for) and by changes in the composition of jobs in the workforce. Compositional changes can be the result of variations in the proportions of full-time, part-time, casual, adult and junior employment, variations in the occupational distribution within and across industries, variations in the distribution of employees between industries, and variations in the proportions of males and females employed.

Average hourly earnings

11.36 Estimates of average hourly earnings for non-managerial employees are available from the EEH survey. These estimates are derived by dividing estimates of gross weekly earnings by estimates of total weekly hours paid for.

Composition of earnings

11.37 Measures of the composition and components of (average weekly) earnings are available only from ABS business surveys. The components of earnings include:

- base pay;
- payment by measured result;
- ordinary time earnings; and
- overtime pay.

11.38 **Base pay** is defined as the award pay or agreed rate of pay (see below) for ordinary time hours paid for. For jobs held by employees whose pay is set in an award or an agreement (either collective or individual), the weekly base rate of pay includes overaward (or overagreement) pay and all taxable allowances (dirt, height, tool, etc.) and penalty payments (e.g. shift loadings) specified in the award or agreement². Base pay excludes payment by measured result and overtime pay, but includes regular bonuses (paid quarterly or more frequently) that are unrelated to individual performance. For jobs held by employees whose pay is not covered by an award or formal (registered) agreement, base pay is the agreed wage for ordinary time hours paid for. Estimates of the components of ordinary time earnings, including base pay, are available from EEH.

2. Refer to Chapter 12 for definitions of awards and agreements.

11.39 **Payment by measured result** refers to earnings which vary according to the measured performance of the jobholder e.g. piecework, production and task bonuses, and commissions. Estimates of the components of ordinary time earnings, including payment by measured result, are available from EEH.

11.40 **Ordinary time earnings** is equal to base pay plus payment by measured result. Overtime pay is excluded. Estimates of ordinary time earnings are available from AWE and EEH.

11.41 **Overtime payments** are payments for hours worked in excess of award, standard or agreed hours and reported as paid overtime. See Chapter 4 for the definitions of award, standard and agreed hours. Estimates of overtime payments are available from EEH.

Earnings measures and classifications used in ABS household surveys

Average weekly earnings

11.42 Estimates of average weekly earnings of employees are derived by dividing estimates of gross weekly earnings by estimates of number of employees. Average weekly earnings represents the average gross (before tax) earnings of employees. It does not relate to average award rates of pay nor to the earnings of the 'average employee'. See the discussion above on the effects on average weekly earnings of changes to: the level of earnings; weekly hours worked; and the composition of jobs in the workforce.

Median weekly earnings

11.43 Median weekly earnings is defined as the earnings amount which divides the earnings distribution into two groups with equal numbers of employees, one half having weekly earnings below the median and the other half having weekly earnings above the median.

COMPENSATION OF EMPLOYEES

11.44 Estimates of compensation of employees are compiled for the Australian National Accounts. The definition of compensation of employees used in the Australian National Accounts is discussed below.

Australian National Accounts

11.45 The 'compensation of employees' component of the Australian National Accounts consists of payments made by employers to their employees for services rendered. It has two components: 'wages and salaries'; and 'employers social contributions'. Wages and salaries comprise the value of employee entitlements, including those paid in cash and in kind, and changes in provisions for future employee entitlements (not currently implemented in the Australian National Accounts). Employers' social contributions are contributions by employers to pension and superannuation funds, and premiums paid by employers to workers' compensation schemes covering occupational injuries and diseases.

11.46 Wages and salaries paid in cash is sourced mainly from the ABS Survey of Employment and Earnings (SEE), and comprises 'earnings' as defined above for AWE and EEH, as well as:

- retrospective pay;
- pay in advance;
- directors' and office holders' fees;
- severance, termination and redundancy payments;
- leave loadings; and
- irregular bonuses and gratuities.

11.47 However, it is necessary to make adjustments to the SEE estimates:

- to account for wages and salaries associated with employee jobs that are excluded from SEE but are in scope of the Australian National Accounts - includes the Australian defence forces, Australian embassies and consulates overseas, and the Agriculture, forestry and fishing industries;
- to account for undercoverage of employee jobs in SEE; and
- to account for payments in kind.

11.48 Estimates of employee jobs and earnings obtained from SEE are used in conjunction with estimates from the Labour Force Survey (and various other sources), to obtain estimates of total employee wages and salaries. The employers' social contributions component is derived from a number of sources including the Survey of Labour Costs (see discussion below) and administrative data from State and Commonwealth Government Departments and Agencies. For

further information on how estimates are obtained see **Australian National Accounts: Concepts, Sources and Methods** (Cat. no. 5216.0).

11.49 The 'compensation of employees' component of the Australian National Accounts is consistent with international guidelines on employee compensation except for: changes in provisions for future employee entitlements (not yet implemented); and the classification of certain leave and severance payments - severance, termination and redundancy payments, sick leave payments, and payments for forms of leave other than annual leave and long service leave - which are all classified as wage and salary payments rather than employers' social contributions.

11.50 As far as possible, estimates of compensation of employees are made on an accrual basis. Estimates from SEE can be produced on either a cash or pay-day adjusted basis³. Pay-day adjusted estimates are used to derive estimates of the total employee wages and salaries component of compensation of employees in the Australian National Accounts.

3. While earnings data in SEE are collected on a cash basis, information is also collected which enables accurate adjustment of earnings estimates to a 'time payable' basis.

LABOUR COSTS

11.51 Estimates of labour costs are produced from two main ABS business surveys: (i) the quarterly WCI which provides a measure of the quarterly change in the wage and salary component of labour costs; and (ii) the five yearly Labour Costs Survey which, in addition to wages and salaries, provides estimates of other components of labour costs. An annual Labour Price Index (LPI) is currently under development and will add non-wage costs to the existing WCI.

11.52 Estimates from these surveys differ in a number of respects. While estimates of labour costs from the Labour Costs Survey are of **total labour costs** incurred by employers in the employment of labour, estimates from the LPI will be of **changes to the 'price' of labour**. Estimates from the WCI are of **changes to the wage and salary component of the price of labour**. Two distinctions should be made between these estimates. The first relates to the measure of labour costs being used i.e. **a price index** (LPI and WCI) unaffected by changes in the quality or quantity of work performed, compared with measures of **flows over a twelve month period** (Labour Costs Survey). The second distinction relates to the labour cost concept being measured i.e. **total labour costs** (LPI and Labour Costs Survey) versus **wage and salary costs** (WCI).

11.53 The ABS derives, or will derive, price indexes, as indicators of labour costs, from both the WCI and the future LPI. These indexes measure changes to the hourly price of employee jobs paid by employers. Their purpose is to measure only the labour market related price changes in the hourly rates paid by employers to their employees for ordinary-time and overtime work, i.e. without having to take into consideration changes to the occupational structure, changes in the composition of the labour force, changes in the quantity of work (i.e. number of hours) undertaken, changes in the quality of work performed, or other extraneous factors.

11.54 Measures of labour costs from the Labour Costs Survey, however, relate to the aggregate cost incurred by employers in the employment of labour. Changes to employers' total labour cost levels can occur for a variety of reasons other than changes to the price paid for labour services (i.e. rates of pay). These include: changes to the size of their workforce; changes to the composition and occupational structure of their workforce (i.e. changes to the mix of part-time and full-time jobs, changes to the mix of high and low skilled jobs, and changes across industries); and changes to the quantity of work needed to complete a task (i.e. a reduction or increase in hours worked). Estimates of changes in total labour costs from the Labour Costs

Survey therefore differ from, and are not comparable with, estimates of changes in the hourly price of labour from the WCI and the forthcoming LPI.

11.55 The following components of labour cost are included in the definition used in the Labour Costs Survey:

- earnings as defined above for AWE and EEH;

plus:

- payments in kind - the value of fringe benefits subject to fringe benefits tax;
- all other payments that are considered irregular and thus excluded from AWE and EEH - these include retrospective pay; pay in advance; severance, termination and redundancy pay; leave loadings; and irregular and annual bonuses;

minus:

- wages and salaries reimbursed under government employment programs;
- workers' compensation payments paid through the payroll;
- superannuation costs - employers' contributions to employee superannuation schemes including employee wages and salaries 'sacrificed' into superannuation contribution payments;
- workers' compensation costs - employers' contributions to workers' compensation insurance schemes plus any other costs not reimbursed by insurers;
- fringe benefits tax; and
- payroll tax.

11.56 The following costs, defined in the international guidelines as labour costs, are excluded from the Labour Costs Survey:

- employers' costs of vocational training;
- employers' costs associated with employee welfare services; and
- recruitment costs.

11.57 The LPI will eventually measure changes in the price paid for labour services covering wages and salaries (measured by the WCI) plus the following non-wage items: paid leave; employer funded superannuation; payroll tax; workers' compensation; fringe benefits; and fringe benefits tax. When fully developed, the components of labour costs measured in the LPI will be consistent with those measured in the Labour Costs Survey⁴. It is expected that collection of data for the compilation of subindexes including superannuation, paid leave and public holidays will commence from late 2001, with publication from 2003.

4. The value of any salary sacrificed to superannuation will be excluded from estimates of quarterly change in superannuation costs produced by the LPI. This will avoid double counting, as salary sacrifice into superannuation is included in the WCI (paragraph 11.58). This treatment differs from the Labour Costs Survey, where salary sacrificed into superannuation is included in the superannuation component of labour costs, rather than the earnings component (paragraph 11.55).

11.58 Currently the LPI produces quarterly changes in wage and salary costs as measured by the WCI. This definition comprises:

- payments in kind - the value of any salary sacrificed, but excluding the value of payments in kind that cannot be salary sacrificed ; and
- all components of earnings as defined above for AWE and EEH except:
 - shift allowances and shift penalty payments; and
 - taxable allowances.

11.59 The definition of wage and salary costs used in the WCI differs from the definition of earnings used in the Labour Costs Survey. Included in the Labour Costs Survey but excluded from the WCI are: shift allowances and shift penalty payments; taxable allowances; and fringe benefits. As the WCI is a price index, it also excludes changes in payments relating to the quality and/or quantity of work performed which are included in 'earnings' in the Labour Costs Survey. The value of any salary sacrificed, one component of payment in kind, is also included in the WCI but excluded from the Labour Costs Survey.

LABOUR COSTS MEASURES AND CLASSIFICATIONS

Labour Costs Survey

11.60 The Labour Costs Survey is designed to produce estimates of employers' labour costs. The survey is conducted on a five yearly basis and a 12 month reference period is used. Estimates are produced on a cash basis i.e. they reflect actual payments made in the annual reference period. As such they do not reflect costs incurred in the reference period for which payments are made in an earlier or later period, but they include payments made in the survey reference period for costs incurred in an earlier or later period. Measures of labour costs available from the Labour Costs Survey include total labour costs, composition of total labour costs and average labour costs per employee. The latter two measures are discussed further below.

Composition of total labour costs

11.61 Measures of the composition and components of total labour costs are only available from the Survey of Labour Costs. The components of labour costs include:

- earnings;
- superannuation;
- payroll tax;
- workers' compensation; and
- fringe benefits tax.

11.62 **Earnings** - the same definition of earnings is used for the Survey of Labour Costs as is used for AWE and EEH except for: certain payments in kind and irregular earnings, which are included in the Survey of Labour Costs but excluded from AWE and EEH; wages and salaries reimbursed under government programs, which are excluded from the Survey of Labour Costs but included in AWE and EEH; and workers' compensation payments paid through the payroll, which are excluded from the Survey of Labour Costs but included in AWE and EEH. A fuller description of earnings from the Survey of Labour Costs is provided in paragraph 11.55.

11.63 **Superannuation** comprises employer-funded contributions to superannuation funds on behalf of employees. Contributions by employees are excluded. Readers should note that due to the different funding arrangements adopted in the public and private sectors, estimates of superannuation from the survey are not directly comparable between the sectors, as explained below.

11.64 Historically, public sector superannuation has been handled differently to that of the private sector. Public sector superannuation schemes can be either 'fully funded', i.e. where funds are set aside in advance to meet future liabilities, similar to most private sector schemes, or they can be 'unfunded', i.e. met on an 'emerging cost' basis where costs are met only as the liability becomes due. Increasingly, public sector schemes are of the fully funded type. Private sector superannuation schemes are fully funded. In the 1996-97 survey, individual Commonwealth general government organisations recorded regular employer superannuation contributions in their budgets in respect of unfunded schemes. In the 1993-94 survey, individual Commonwealth general government agencies did not report these costs in respect of unfunded superannuation schemes, as they were not recorded in agency budgets.

11.65 In addition, the costs of public sector superannuation can be met on two bases:

- Costs can be met from the annual budgets of individual agencies, although these employer superannuation contributions may not necessarily be paid directly into superannuation funds. Agency-funded employer superannuation contributions are included in the superannuation estimates from this survey.
- The Commonwealth Government and the State Governments can meet the costs directly from consolidated funds. The costs paid out of consolidated funds are not collected in the survey, but separate estimates of net expenditure on superannuation by general government are included in the survey publication **Labour Costs, Australia** (Cat. no. 6348.0).

11.66 **Payroll tax** is defined as the amount of tax paid during the survey reference year in respect of the gross wages and salaries of employees, net of any rebates. Payroll tax assessed for payments to contractors and other persons not considered as employees is excluded.

11.67 **Workers' compensation** is defined as the cost to the employer in providing workers' compensation cover for employees. There are three ways to meet these costs:

- The majority of employers pay a premium to an insurer. In this case, workers' compensation costs are considered to comprise: premiums paid during the survey reference year including the component that covers an employee for common law damages; and any workers' compensation costs not reimbursed by the insurer including 'make-up' and 'excess' pay.
- Some larger employers may become 'self-insurers' and cover most costs themselves. Workers' compensation costs are considered to comprise: lump sum payments and payments made as part of employee earnings; premiums paid during the year to offset liability at common law for workers' compensation; and any other costs, including common law costs not reimbursed by the insurer, such as legal, accounting, medical and administrative costs.
- In the public sector, some workers' compensation costs are paid from consolidated funds. In most cases these payments relate to liabilities incurred under prior legislation. The amounts paid from consolidated funds are not collected in the survey, but separate estimates are included in the survey publication **Labour Costs, Australia** (Cat. no. 6348.0).

11.68 **Fringe benefits tax** is defined as the tax payable in respect of most fringe benefits provided by employers to employees. Generally, tax is payable on the gross taxable value of the benefits⁵ in the fringe benefits tax year, 1 April to 31 March. Not all organisations which provide fringe benefits to their employees are required to pay fringe benefits tax.

5. Gross taxable value of the benefits - fringe benefits tax is paid on the value of the benefits provided although exemptions apply to some categories of benefits (such as superannuation).

11.69 Fringe benefits are non-cash remunerations (e.g. use of cars, low cost housing loans and accommodation) provided to employees as part of their employment packages.

Labour costs per employee

11.70 Estimates of labour costs per employee are derived by dividing estimates of total labour costs by estimates of numbers of employee jobs. Labour costs per employee represent the average labour costs of employee jobs. They do not relate to the labour costs of the 'average employee'.

11.71 Changes in labour costs per employee may be affected not only by changes in the underlying level of labour costs, but also by changes in the size and composition of the workforce and in hours worked.

Wage Cost Index

11.72 The Wage Cost Index comprises four sets of component price indexes:

- ordinary time hourly rates of pay - excluding bonuses;
- ordinary time hourly rates of pay - including bonuses;
- total hourly rates of pay - excluding bonuses; and
- total hourly rates of pay - including bonuses.

11.73 The indexes that **exclude** bonuses are 'pure' price indexes: i.e. they aim to measure changes over time in the wage and salary cost of a representative 'basket' of jobs, unaffected by changes in the quality or quantity of work performed. This is referred as 'pricing to constant quality'. These indexes are unaffected by shifts in the distribution of employees across occupations and industries, and between full-time and part-time jobs.

11.74 The **ordinary time** indexes that exclude bonuses measure quarterly changes in ordinary time hourly wage and salary rates. Changes in rates of pay reflected in these indexes arise from a range of sources including award variations, enterprise and workplace (collective) agreements, centralised wage fixation, and individual contracts and agreements. These indexes are not affected by changes in penalty payments (which fluctuate depending on the number of hours paid at penalty rates), changes in allowances (which fluctuate according to how much work is performed under special conditions e.g. height, dirt, heat allowances) or changes in bonus payments (which may, or may not, relate to an individual's work performance). Specifically, the following costs are excluded from the ordinary time hourly rates of pay indexes:

- penalty payments for overtime, shifts, weekends and public holidays;
- ordinary time and overtime allowances; and
- bonus payments.

The effect of rolling ordinary time penalty payments and allowances into ordinary time hourly rates is excluded from these indexes. However, when overtime penalty payments are rolled into ordinary time hourly rates, the ordinary time indexes will increase accordingly.

11.75 The **total hourly** indexes that exclude bonuses are based on a weighted combination of ordinary time hourly rates (described in paragraph 11.74) and overtime hourly rates. The combined hourly rates reflect changes in ordinary time hourly rates as well as changes in overtime hourly rates. The effect of changes in the amount of overtime paid at each overtime rate is not reflected in these indexes except when overtime penalty payments are rolled into ordinary time hourly rates. However, when this occurs, the increase in the ordinary time hourly rate will tend to be offset by the elimination of the higher overtime hourly rate, leaving the total hourly indexes largely unchanged.

11.76 The indexes that **include** bonuses reflect the changes in wages and salary rates shown in the pure price indexes, as well as changes in bonus payments; hence they tend to be more volatile than the pure price indexes. Bonus payments are converted to an 'hourly rate' based on the relevant period of work. This hourly rate is then added to the respective hourly wage and salary rates (ordinary time and total hourly) to construct indexes that include bonuses.

EMPLOYMENT-RELATED INCOME

11.77 The ABS does not produce estimates of employment-related income as defined in the international guidelines. However, data are collected on the broader measure of income in a number of household collections. The concepts underlying measures of income collected in ABS household surveys are outlined in the ABS's **A Provisional Framework for Household Income, Consumption, Saving and Wealth 1995** (Cat. no. 6549.0). The definition of income outlined in the framework is reproduced below and briefly contrasted with the definition of employment-related income.

Income

11.78 The framework defines income as "those receipts (in cash and in-kind) that are of a regular and recurring nature, and are received by the household or its members at annual or more frequent intervals. It includes regular receipts from employment, own business and from the lending of assets. It also includes transfer income from government, private institutions and other households. Income also includes the value of services provided from within the household via the use of an owner-occupied dwelling, other consumer durables owned by the household and unpaid household work. Income excludes capital receipts that are considered to be an addition to stocks, and receipts derived from the running down of assets or from the incurrence of a liability. It also excludes intra-household transfers".

11.79 This definition of income is broader than the definition for 'employment-related income'. It encompasses a number of payments (in cash and in kind) that are not related to employment and thus excluded from the definition of 'employment-related income'. Examples of payments excluded from the definition of 'employment-related income' include:

- transfer income, such as government income support (e.g. pensions, benefits and allowances received from governments) that is not related to employment - in Australia, most government income support is not employment-related;
- income from superannuation schemes (e.g. pensions and annuities) that is not employment-related - such as incomes from schemes where contributions were not related

to employment (e.g. investments of inheritance in superannuation/annuity schemes);

- property income that is not related to employment - such as returns from financial assets (e.g. interest, dividends), from non-financial assets (e.g. rent) and from royalties; and
- the value of services provided from within the household via the use of an owner-occupied dwelling, other consumer durables owned by the household and unpaid household work. It should be noted, however, that these elements of income are not currently included in ABS household survey based estimates of income.

11.80 It should also be noted that while the framework defines income as including in-kind receipts, ABS household surveys usually exclude them from estimates of income, or only include a small number of in-kind elements.

DATA SOURCES

EARNINGS

11.81 Estimates of earnings are available from:

- the Survey of Average Weekly Earnings;
- the Survey of Employee Earnings and Hours;
- the Survey of Employment and Earnings; and
- the Employee Earnings, Benefits and Trade Union Membership Survey (a supplement to the Labour Force Survey).

11.82 Earnings measures are also available from the Labour Costs Survey (estimates of earnings are produced as a component of total labour costs) and the Wage Cost Index (a price index of change in wage and salary costs incurred by employers). Both surveys collect information about employers' labour costs. In addition to employee earnings, the Labour Costs Survey collects information on a range of other costs incurred by employers in the employment of labour. Both surveys are discussed further below.

Survey of Average Weekly Earnings

11.83 The quarterly Survey of Average Weekly Earnings produces a range of estimates of average weekly earnings paid per employee job. The following estimates are produced: average weekly ordinary time earnings for full-time adults; average weekly total earnings for full-time adults; and average weekly total earnings for all employee jobs (i.e. whether full-time or part-time, or whether paid at adult or junior rates). These estimates can be classified by sex, sector, industry and State/Territory. The definition of earnings used in the survey is specified in paragraphs 11.24-11.27. Also discussed above (paragraphs 11.34-11.41) are the earnings measures available from ABS business surveys, including estimates of average weekly earnings. For more detail on the content and methodology of the Survey of Average Weekly Earnings see Chapter 27.

Survey of Employee Earnings and Hours

11.84 The biennial Survey of Employee Earnings and Hours produces estimates of earnings

distributions and average weekly earnings classifiable by sex, adult/junior status, managerial/non-managerial status, full-time/part-time status, hours paid, components of pay, occupation, industry, sector, level of government, State/Territory, and method of setting pay. This survey also produces estimates of average hourly total earnings for non-managerial employees, classified by male/female, permanent/temporary/casual, State/Territory, and method of setting pay. The definition of earnings used in the survey is outlined in paragraphs 11.24-11.27. Also discussed above (paragraphs 11.34-11.41) are the earnings measures available from ABS business surveys, including measures of average weekly earnings and the various components of pay, except for method used to set pay which is discussed in Chapter 12. For more detail on the content and methodology of the Survey of Employee Earnings and Hours see Chapter 28.

Survey of Employment and Earnings

11.85 The quarterly Survey of Employment and Earnings produces estimates of total quarterly 'earnings'. Estimates of the following earnings components are produced: gross wages and salaries; severance, termination and redundancy payments; and fees paid to directors and office holders. Estimates are classifiable by full-time/part-time status, sector, level of government, public institutional sector (SISCA), industry, and employer unit size (private sector only). The definition of earnings used in the survey is broader than that used in AWE and EEH and is outlined in paragraph 11.29. For more detail on the content and methodology of the Survey of Employment and Earnings see Chapter 29.

Supplementary Survey: Employee Earnings, Benefits and Trade Union Membership Survey

11.86 An annual supplementary topic to the Labour Force Survey, Employee Earnings, Benefits and Trade Union Membership produces estimates of: average weekly earnings per employee (referred to as mean weekly earnings in the publication). Separate estimates are produced for earnings in main, second and all jobs held by employees; median earnings; and earnings distributions. Estimates are produced for both main job and all jobs, classifiable by a range of socio-demographic and economic variables including age, birthplace, sex, relationship in household, State/Territory of usual residence, industry, occupation, sector, full-time/part-time and hours paid. The definition of earnings used in the survey is outlined in paragraph 11.33. Also discussed above (paragraphs 11.42-11.43) are the earnings measures available from the survey. Caution should be exercised when using earnings estimates from this survey. Estimates from the survey are likely to have a significant downward bias when compared with estimates of earnings from business surveys such as AWE and EEH. This is a result of recall problems encountered by respondents when providing details of their earnings during a personal interview. In contrast, respondents to business surveys generally source earnings details directly from payroll records. For more detail on the content and methodology of the Employee Earnings, Benefits and Trade Union Membership Survey refer to Chapter 20 Section 2.

COMPENSATION OF EMPLOYEES

11.87 As discussed above, 'compensation of employees' is a component of the Australian National Accounts. Estimates of compensation of employees are contained within the Income Accounts of the Australian National Accounts which are published in **Australian System of National Accounts** (Cat. no. 5204.0). For further information on how estimates are obtained see **Australian National Accounts: Concepts, Sources and Methods** (Cat. no. 5216.0).

LABOUR COSTS

11.88 Estimates of total labour costs are available from:

- the Labour Costs Survey; and
- the Business Operations and Industry Performance Series.

11.89 Indexes of changes in hourly labour costs for employee jobs are available from:

- the Wage Cost Index; and
- the Melbourne Institute Wages Report.

Labour Costs Survey

11.90 The Labour Costs Survey collects data on the main costs incurred by employers as a consequence of employing labour. All data are collected on a cash basis i.e. they reflect actual payments made in the survey reference period. As such they do not reflect costs incurred in the reference period for which payments are made in a later period, but they include payments made in the survey reference period for costs incurred in a prior period. The survey has a 12 month (financial year) reference period and is conducted five yearly. Estimates of labour costs are produced for the private and public sectors, and include: employee earnings; employer payments for superannuation; workers' compensation; payroll tax and fringe benefits tax. Estimates of total labour costs and costs per employee job can be cross classified by State/Territory, industry, sector, level of government and employer size. The definition of labour costs used in the survey is specified in paragraphs 11.55-11.56. Also discussed above (paragraphs 11.60-11.71) are the labour costs measures available from the survey. For more detail on the content and methodology of this survey see Chapter 26.

Business Operations and Industry Performance Series

11.91 Estimates of labour costs from the Business Operations and Industry Performance series are derived using a combination of data from the annual ABS Economic Activity Survey and business income tax data provided by the Australian Taxation Office. This series defines labour costs more narrowly than the Labour Costs Survey. Labour costs are restricted to: wages and salaries paid to employees; employer contributions to superannuation; and workers' compensation. Severance, termination, and redundancy payments are included in wages and salaries. For further information on data content and collection methodologies of this series, readers should refer to **Business Operations and Industry Performance, Australia** (Cat. no. 8140.0).

Wage Cost Index

11.92 The Wage Cost Index provides a measure of change in wage and salary costs in the Australian labour market, unaffected by changes in the quality and quantity of work performed. The Wage Cost Index is a Laspeyres price index which measures changes over time in wage and salary rates of pay for employee jobs. A Laspeyres price index measures the change in the price between the current period and the price at a given base period, with the quantity and quality of 'goods and services' (in the case of the Wage Cost Index, the quality and quantity of labour services) being held constant. The Wage Cost Index comprises four sets of quarterly indexes: ordinary time hourly rates of pay excluding bonuses; ordinary time hourly rates of pay including bonuses; total hourly rates of pay excluding bonuses; and total hourly rates of pay including bonuses. Each of these indexes is described more fully above (paragraphs 11.72-11.76). Also set out above (paragraph 11.58) is the definition of wage and salary costs used in the Wage Cost Index. For more detail on the content and methodology of this survey see Chapter 30.

Melbourne Institute Wages Report

11.93 The Melbourne Institute of Applied Economic and Social Research (University of Melbourne) also produces measures of change in wage rates for total and base pay (these measures are referred to as Pay Indicators) in its quarterly **Melbourne Institute Wages Report**. The collection methodology used by the Melbourne Institute to produce its Total and Base Pay Indicators differs significantly from that used by the ABS to construct the Wage Cost Index, and this should be borne in mind by readers when comparing estimates of wage rate changes across the two collections. For further information on the collection methodology of the Wage Cost Index see references listed above; a brief overview of the collection methodology used to construct the Pay Indicators is provided below.

Overview of methodology for Melbourne Institute's Pay Indicators

11.94 The sample is drawn from the Melbourne Institute's Consumer Sentiment Survey of Australian adult residents. Information is collected on percentage changes to total and base wage rates, over a 12 month period, from persons who have been employed in the same job for the preceding 12 months. The final sample used to construct the Pay Indicators averages around 400-450 persons. Changes in wage rates are weighted averages of responses provided to questions: "By what percentage has your base pay changed over the last 12 months?" and "By what percentage has your total pay changed over the last 12 months". For further information, refer to the **Melbourne Institute Wages Report**.

EMPLOYMENT-RELATED INCOME

11.95 There are no known sources of data for employment-related income. However, measures of the broader concept of 'income' are available from a number of ABS household collections including:

- the Survey of Income and Housing Costs;
- the Household Expenditure Survey; and
- the Census of Population and Housing.

Survey of Income and Housing Costs

11.96 The Survey of Income and Housing Costs collects detailed information on cash income only (no data are collected on income in kind) according to the ABS framework. For more detail on the content and methodology of the survey refer to **Income Distribution, Australia** (Cat. no. 6523.0).

Household Expenditure Survey

11.97 The Household Expenditure Survey also collects detailed information on income according to the ABS framework. Some information is collected on income in kind (namely consumable goods provided by employers). For more detail on the content and methodology of the survey refer to **1998-99 Household Expenditure Survey, Australia: Summary of Results** (Cat. no. 6530.0).

Census of Population and Housing

11.98 The Census of Population and Housing collects information on total income levels only. Estimates cannot be classified according to type of income. The Census does not support measures of 'employment-related income'. For more detail on the content and methodology of the Census refer to Chapter 18.

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